State Intervention in the ASEAN-4

Creating Growth Without Welfare

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State Intervention in Southeast Asia Creating Growth without Welfare

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Abstract

Increasing attention has been given in recent years to the implications of state restructuring, and state-society relations more generally, for patterns of economic growth, and the consequences of these transformations for income distribution and welfare. Much of this has focused on state administrative structures promoting growth, generating useful analytical constructs, such as that of the developmental state. Other analyses focus on private sector organizations and interpersonal networks supporting the developmental state or facilitated by this particular political entity. But still the broader political correlates between internal and external politics and state structure itself remain relatively unexplored.

This paper consist of a preliminary discussion presenting the social changes and problems emanating from state policy-making and market allocations. It attempts to explore the relationship between institutional capacities of state structures in the ASEAN-4(Indonesia, Malaysia, Thailand and the Philippines), strong growth and the uneven spread of benefits. The last two sections are devoted to a discussion of emerging functions of government. One such group of functions has to do with the role of the state as a catalyst in guiding and energizing national development processes; a second category is composed of the regulatory functions of government as an arbiter in cases where individual and collective interests are in conflict, while the last group of functions concern the performance of those duties that are the exclusive prerogative of government.

The paper closes with a comparative perspective on constraints and possibilities on political will and state capacities to improve welfare and income distribution in the ASEAN-4. The conclusion shows that contradictions between political will(government) and actual implementation(capacity of the bureaucracy) shape the outcome of welfare.

State Intervention in Southeast Asia. Creating Growth Without Welfare[*]

'The fundamentals of capitalist ethics require that "you shall earn your bread in sweat" -unless you happen to have private means'.

M. Kalecki, 1943

Introduction

Capitalism, as its keenest critic Karl Marx observed, generates a rapid long-run rate of capital accumulation and a tremendous increase in the forces of production. Marx also stressed, however, that the development of capitalist economies tends to be very uneven - both spatially and temporally; there are good times and bad. Indeed, most capitalist economies have been characterized by alternating periods of rapid economic expansion, lasting several decades, and periods of generalized economic crisis, lasting a decade or more. Each such long-run-boom and subsequent crisis constitutes a long swing; and each long swing in the development of a capitalist economy can be associated with a historically specific social structure of accumulation.

The changes in the Southeast Asian economies over the last thirty years have been spectacular. Substantial industrial sectors have been established and in all except Indonesia the dependence on primary exports has been reduced. These rapid changes have been made possible by the development of the international economy and have more or less followed the up- and down-turns in global capitalism where the crisis in the 1930s were followed by substantial economic growth, and again the crisis in the 1980s followed by a period of restructuring and then rapid growth. What is quite significant for these two periods of growth is the importance of factors external to the states in Southeast Asia.[1]

The political economy explanation tells us that a market system - capitalism - is not self-regulating. It does not add up to a socially defensible allocation of either private income or public investment. It does not efficiently or fairly distribute certain necessary social goods, like education or health or roads or research spending. Left to their own devices, markets do not

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[*] Paper presented to the conference *'Emerging Classes and Growing Inequalities in Southeast Asia'*, Gl. Vraa Slot, Denmark, 23-25 September 1994.

[1] For an interesting account see Chris Dixon, South East Asia in the World-Economy, Cambridge University Press, 1991.

broker social contracts - which are needed, even in narrowly economic terms, to compensate for the market's own myopia.

Ever since political activities became concentrated in an entity separate from the rest of society, the existence of the state has implied a claim on resources. In the realm of economic activities the state appears as an economic agent and as a regulating agency. In its role as an economic agent the state acts as a producer of services and goods, and as a regulating agency it intervenes in private economic activities. State services include the provision of public goods while state participation in economic development comes in two forms: direct participation via public ownership of enterprises and indirect participation via fiscal and trade policy. We need a conceptual design in order to understand the role of the state and politics in Southeast Asia. Is the state inducing or facilitating welfare?

Policy-making, Institutions and Social Change

Historical and theoretical studies show that economic growth itself tends to exacerbate income inequalities. There is no automatic trickling down of welfare in accompaniment to economic growth, but rather a trickling up; and any improvement in the distribution of income requires a deliberate policy endeavour.

The aims of economic policy are sometimes formulated as a social welfare function to be maximized(or minimized), subject to certain constraints. The social welfare function comprises target variables, and, possibly, some instrument variables. Physical or political constrains can limit the permissible range of instrument variables, and must be taken into consideration in the design of policies for fixed targets.

It is useful to look to the ingredients of economic policy by examining the policy instruments which governments have available - These policy instruments fall into six broad areas:

1. fiscal policy, concerned with expenditure and taxation
2. monetary policy, concerned principally with interest rates
3. industrial and agricultural policy, concerned mainly with investment
4. innovation policy, concerned with research and development, education, training and the provision of infrastructure
5. trade policy, concerned with the balance of payments, trade protection, and the stimulation of exports

6. welfare policy, labour and income policy, concerned with a healthy, motivated labour force.

In a traditional classification of economic policy the first two areas constitute macro-economic policy; the next three refer to micro-economic policies and the last one is normally considered to be quite distinct from economic policy. However, in functionalist terms, a successful economic policy is a secure welfare system which sustains and develops the labour force. This has a number of advantages. Firstly, it buys social peace, since it blunts the force of distributive conflicts which are at the heart of capitalist development. This manifests itself in lower levels of strike activity which is a major source of loss of economic welfare and efficiency in capitalism. But more directly an educated and healthy population is a more efficient workforce; no country can promote technological change and industrial innovation with a dilapidated social infrastructure, an inadequate educational system, poor housing and high levels of economic insecurity.

There appear to be many alternative policy instruments for alleviating income inequality. Policies must ensure that the purchasing power of the low-income group is increased, that the supply of wage goods is sufficient for basic minimum consumption standards, that the available supplies actually reach the target groups, and that the redistribution policy is sustainable.

Policy instruments of redistribution comes in many forms. Price policy, wage policy, taxes, employment creation, public goods and redistribution of assets. I have no intention to complete a review of all these complex policy issues in the Southeast Asian context, but only focus on a number of cases to illustrate the problems.

Before moving to the particular cases it is important to stress the following general features which all apply to the institutional set-up in the ASEAN-4: 1. the degree of autonomy and insulation of technocrats and other policy makers have determined the relationship between state priority on growth and the neglect of social welfare distribution.(Except in Malaysia) This is partly due to, 2. the degree of stable bureaucracies and in all countries concerned, Thailand apart, long-term stable governments (Marcos, Suharto and Mahathir) which created the necessary political stability, and finally 3. the exclusion of the majority of the populations from political participation and influence on important policy questions.

With these general points in mind it is useful to examine the question of growth and welfare at a more detailed level by looking at case studies. This complements the general overview of the field which has been explored until now. It will be done by means of four case studies, Indonesia, Malaysia, Thailand and the Philippines, by looking at each individual country and by comparing the political aspects of growth and welfare.

Growth and Equity in Southeast Asia

The dominant political tensions within capitalism concern the control of investment resources and the division of the surplus from production. This is also the case in Southeast Asia where historical confrontations have shown the occasional mobilization of excluded groups and classes.[2]

As can be seen from table 1 the ASEAN-4 represents the medium performers in the Asia-Pacific region, next to the NICs and Japan, but ahead from South Asia. This group's per capita economic growth averaged 3.5 percent during the 1965-1990 period, with the Philippines showing the poorest performance(1.3 percent) and Indonesia and Malaysia, buoyed by their oil wealth, more than doubling the Philippine growth rate. Thailand's GNP growth rate was also more than double that of the Philippines. For Thailand and Malaysia, growth has provided an exceptional flow of resources for development and social welfare. Even the Philippines enjoyed substantial growth up to the domestic political crisis and world economic recession in the beginning of the 1980s.

Indeed several measures of aggregate social welfare do show substantial improvement. Through the three decades from the 1960s onwards, Thailand had some 9 million absolute poor, and the Philippines 13 million. But both countries reduced the incidence of absolute poverty by about a third, to 16 percent in Thailand and 20 percent in the Philippines. In 1990, Thailand's incidence of poverty was as high as Indonesia's even though its average GNP was 2.5 times higher. In absolute numbers about 50 million remained poor[3]. If we look at UNDP's Human Development Index there was a general increase at almost all levels.[4]

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[2] See among others: on labour Peter Limqueco et al., Labour and Industry in ASEAN, Journal of Contemporary Asia Publishers, Manila, 1989. On the role of peasants, Victor P. Karunan, A History of Peasant Movements in Thailand and the Philippines, Plough Publications, Hong Kong, 1984.

[3] See Office of the Vice President, Sustaining Rapid Development, The World Bank, Washington D.C., 1993, p. 8.

[4] Mahbub ul Haq et al., Human Development Report 1993, UNDP, New York, 1993.

Table 1: GNP per capita growth and absolute poverty in the ASEAN-4, 1970-90

Country	Average annual growth rate (percent) 1965-90	Poverty					
		Incidence (%)			*Number (millions)*		
		1970	1980	1990	1970	1980	1990
Indonesia	4.5	60	29	15	70	42	27
Malaysia	4.0	18	9	2	2	1	0.4
Philippines	1.3	35	30	21	13	14	13
Thailand	4.4	26	17	16	9.5	8	9

Note: Due to differences in coverage and definitions. Cross-country comparisons have their limitations.

Source: World Bank

By the conventional yardstick of aggregate or per capita income growth, the economic performance of the resource-rich ASEAN-4 in the last decades has generally been very impressive. However, the level of economic growth does not correspond with the welfare when they are broken down to measures such as income distribution, and social and regional differences. I will argue that economic growth is best understood if we explore its political correlates meaning the type of political regime and the choice of developmental strategy which concomitantly have important distributional consequences for the economy.[5]

What these figures do not reveal is that economic growth go hand in hand with exploitation and inequality. This increasingly uneven development is exacting a high social cost from the population and ultimately it can lead to economic disarticulation, social tension, and political unrest. In most instances the unevenness of growth in the ASEAN-4 aggravates social and regional inequality.[6] Regional inequalities have increased and disparities among and between classes and social strata in the rural as well as the urban areas are growing.

It is not only in the rural areas, but also in the metropols there are increasing inequality and disparity of living conditions. In addition, as I will come back to below, there is a growing gap between the relative improvement in income generation and the acute needs in collective consumption and urban services. Housing, health, public transportation, and social services do not keep pace with the growth of social and functional needs of the urban population. As Castell's points out, "the urban crisis becomes and important aspect of the social blight which is an integral part of the industrialization process in the ASEAN region."[7]

The widening gap in incomes exist with respect to per capita income in the metropolitan centres versus that of other regions. The gap also is glaringly apparent in terms of the differential incomes of the wealthy and the poor. On top of the income pyramid, the wealthy,

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5 Donald K. Crone, *State, Social Elites, and Government Capacity in Southeast Asia*, World Politics, Vol.40, No.2, 1988. Ng Chee Yuen, Sueo Sudo and Donald K. Crone, *The Strategic Dimension of the "East Asian Developmental States"*, ASEAN Economic Bulletin, Vol.9, No.2, 1992 and Johannes Dragsbaek Schmidt, In the Shadow of the Pacific Century. - Comparative Perspectives on Externalities Influence on Economic Policy-Making in Southeast Asian Would-be NICs, (Department of Development and Planning, Aalborg University) Development Research Series, No.31, Aalborg, July 1993.

6 See the ASEAN case-studies presented in Helmuth Kurth Economic Growth and Income Distribution, Moed Press, Manila, 1989.

7 Manuel Castells, *Guest Editor's Introduction*, in Manuel Castells (ed.), *Transnational Corporations, Industrialization, and Social Restructuring in the ASEAN Region*, Regional Development Dialogue, Vol. 12, No. 1, Spring 1991, p.v.

but small, upper class consist of a disproportionately high percentage of pure Chinese or mixed Chinese-indigenous ethnic strain in the four countries where the Chinese comprise a minority of the population. Included among those very rich who are not Chinese are a small number of top military officers in Thailand and Indonesia, either in active service or retired, who were each invited to serve on boards of directors of several locally - and/or foreign-owned industries and businesses, and who were either given or sold some stock in these enterprises at artificially low prices: Some of these officers, after either amassing sufficient wealth from this stock over the years, or after receiving preferred credit from government banks, eventually opened up large business enterprises of their own.[8] This elite dominate the society in nearly all respects. They control most of the wealth, set societal norms, and control the political system, with only a few exceptions.[9] Only Malaysia has followed a more or less successful policy to eliminate poverty, but I will come back to that below.

In Thailand the richest 20 percent of households earned about 49.3 percent of total income in 1975/76, with the proportion rising to about 54.9 percent in 1987/88. The poorest 20 percent earned about 6.1 percent in 1975/76, which went down to 4.5 percent in 1987/88.[10] The situation in Indonesia looked as a status quo. The richest 20 percent earned 42 percent in 1980 and about 42 percent in 1989 of total income. The poorest 40 percent earned 20 percent and saw a slight increase to about 21 percent in 1989.[11] In the Philippines the richest 20 percent earned 54 percent of total income in 1970/74 but this estimate decreased slightly to about 52 percent in 1986/89. The poorest bottom 30 percent earned 7.1 percent in 1970/74 but only increased to 9.3 percent in 1986/89.[12] In Malaysia the share of the top 20 percent has declined

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8 M. Ladd Thomas, *Social Changes and Problems Emanating From Industrialization in the ASEAN Region* in Manuel Castells, Transnational Corporations, Industrialization, and Social Restructuring in the ASEAN Region, Regional Development Dialogue, Vol. 12, No. 1, Spring 1991, p.14 fn.8.

9 See among others the contributions in Ruth McVey (ed.), Southeast Asian Capitalists, Cornell Southeast Asia Program, Ithaca, New York, 1992.

10 Somchai Ratanakomut et al., *Urban Poverty in Thailand: Critical Issues and Policy Measures*, Asian Development Review, Vol.12 No.1, 1994, p.205.

11 Sumitro Djojohadikusumo, Indonesian Economic Developments During Four Five-Year Plans 1969/1970 - 1988/1989, Center for Policy Studies, Jakarta, 1989, p.51.

12 Mario Lamberte et al., Philippine External Finance, Domestic Resource Mobilization and Development in the 1970s and 1980s, PIDS and ISS, The Hague, 1992, p. 346.

from about 55 percent in 1973 to about 52 percent in 1987. The share of the bottom 40 percent has increased from 12 to about 14 percent in the same period.[13]

Deterioration in the social distribution of income and wealth represents a formidable potential fetter on economic growth and can also play a role in sparking the downswing of an economic cycle. The growth of real GDP has delivered social benefits mainly in the form of new employment opportunities rather than in a general improvement of living standards for those at the bottom 20 percent of the income pyramid.[14]

The State as Catalyst and the Political Structure

The role of technocrats, i.e. non-elected, nominally apolitical policy-makers responsible for formulating and carrying out national economic policies, is an aspect of policy formulation common to all four countries. Another commonality is the close relationship between technocrats, economists, and select academic and research institutions. Technocrats in Indonesia, Malaysia and Thailand have remained relatively insulated from demands for accountability and participation - although in Thailand, some banking and business interests have proven able to penetrate the insulation. By comparison, technocrats lost power, temporarily, in the transition from the Marcos to the Aquino regime in the Philippines.[15]

Considerable contextual evidence can be found that suggests that Southeast Asian state officials, because of personal, formal as well as informal, socialization and material benefits derived from connections with TNCs and related elites from U.S., Japan and Western Europe, should have substantial benefits motivation to repress disruptive TNC workers. Both formal and informal socialization mechanisms have been found to instill in Southeast Asian state officials a developmental preference for TNC based production. The Economic Development Institute of the World Bank, for example, socializes technocrats into TNC-dominated export-oriented investment programs. Similar educational courses are being sponsored by the Asian

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13 Surjit Bhalla and Homi Kharas, *Growth and Equity in Malaysia: Policies and Consequences*, in Teh Hoe Yoke & Goh Kim Leng (eds.), Malaysia's Economic Vision. Issues and Challenges, Pelanduk Publications, Kuala Lumpur, 1992, p. 47.

14 Bruce McFarlane, *Growth and Cycles in Southeast Asian Development*, Journal of Contemporary Asia, Vol.18, No. 2, 1988, p.133.

15 Johannes Dragsbaek Schmidt, ASEAN i en Forandret International Arbejdsdeling (ASEAN in a Changing International Division of Labour), Den Ny Verden, Vol. 26, No.2, 1993.

Development Bank. Given the lending leverage these institutions have over technocrats, one must assume that the instruction is taken seriously. Likewise, a great number of Japanese and American foundations provide essential funds for education and scholarships for students, researchers and bureaucrats. Indeed, university education in the North has given birth to such appellations as the "Berkeley Mafia" in Indonesia and the "Ivy League Mafia" for those in the Philippines.[16]

Liberalization-oriented stabilization policies and de-regulation implemented in the ASEAN-4 in the last decade have had mixed results in terms of their objectives, and have been detrimental to growth and income distribution. The ambiguous results in terms of stated objectives(containing inflation and rectifying the chronic balance-of-payments imbalances) show that the standard policy packages induced by IMF and the World Bank are not well-designed and do not correspond to the reality of the economies concerned.

The NIC and Japanese experience tells us that a policy combining various incentives (fiscal, financial, exchange rate and trade incentives -including protection) have to be used to make industrialists export. The explanations is that a developing economy cannot overcome its technological disadvantages in late industrialization without the aid of subsidies, protection and coordination by the state.[17]

Industrial protection associated with import-substitution are policy instruments that raise the domestic price of import-competing products relative to exportables. As can be discerned from table 2 the effective rates of protection in manufacturing are high and as I have pointed out earlier EPR's have actually increased during the 1980s.[18]

If we turn to another important policy, the uncontrolled rapid growth of the metropolitan centres has exceeded the capacity of the governments to provide essential public utilities and services. Blackouts, flooding because of lack of piped water facilities and ground water and

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16 For a systematic and incredible amount of evidence on personalised relationships between state officials, be it technocrats, the military or bureaucrats on the one hand and representatives for TNCs on the other, see David Kowalewski, *Asian State Repression and Strikes Against Transnationals*, in George A. Lopez and Michael Stohl (eds.), Dependence, Development and State Repression, Contributions in Political Science No.209, Greenwood Press, New York, 1989, pp. 81-85.

17 Alice Amsden, Asia's Next Giant: South Korea and Late Industrialization, Oxford University Press, New York, 1989, pp. 13-14.

18 Johannes Dragsbaek Schmidt, Increasing Exports in a Decreasing World Market: The Role of Developmental States in the ASEAN-4, (Department of Development and Planning, Aalborg University) Development Research Series, No.33, July, Aalborg, 1994.

lack of sewage systems and increasing pressure on garbage collection, heavy pollution and traffic congestion have led to chaos and growing public dissent with state and metropolitan policies.

Urban-biased development policy has been in operation in varying degrees in Indonesia, Malaysia and the Philippines where roughly a quarter to one-third of the urban population are found in the metropolitan capitals. The comparatively low urban concentration in Indonesia must be related to its large territorial expanse. This can hardly be credited in any significant measure to Indonesia's transmigration program, which has had limited success. The relative moderate urban primacy in Malaysia is the result of slower rural-urban migration, which in turn has been made possible by the rural thrust of its development policy since the late 1960s, including the promotion of regional growth centers since the mid-1970s. A major policy instrument in Malaysia has been the development of new land schemes (FELDA), supplemented by such other measures as agricultural extension services, provision of credit and marketing schemes, drainage, irrigation and transport facilities.

The rapid growth of economic activity and of population continues to be concentrated in the metropolitan capitals. This has been the consequence of economic and social policies that have implicitly favoured large cities at the expense of agricultural areas and small provincial cities, implying as well that explicit spatial distribution policies have been largely ineffective.[19] For the capitalist countries of Southeast Asia: Any critical evaluation of policies adopted specifically for the purpose of influencing urbanization is likely to reach the conclusion that these policies are relatively weak instruments compared with the basic and powerful effects of certain underlying trends and of government policies adopted with other ends in view. This statement could well have been made with respect to attempts to reduce the unevenness of development as a whole.[20]

While state intervention has favoured the urban context it has, with financial aid and advice from the World Bank, on the other hand also supported the rural sector in terms of rural infrastructure investment - in irrigation, transport, electrification, health and education - that helped to overcome some production constraints. However, it is in the area of agricultural pricing policies that state intervention in the ASEAN-4 has frequently not worked to the

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[19] Ernesto M. Pernia, Some Aspects of Urbanization and the Environment in Southeast Asia, Report No.54, Asian Development Bank, Manila, 1991, p.22.

[20] G. W. Jones, *Urbanization Trends in Southeast Asia: Some Issues for Policy*, Journal of South East Asian Studies, Vol.19 No.1, p.145. Quoted from Chris Dixon, South East Asia, op cit. pp. 215-216.

benefit of farmers.[21] Producer prices of many farm products, especially export crops, have been suppressed through the operation of marketing boards, the imposition of explicit taxes, and direct price controls. While subsidies for farm inputs (fertilizer, irrigation water, credit) have been provided, mostly to food crop producers, they do not always compensate substantially for the low prices of agricultural output. Even worse from a distributional viewpoint, those input subsidies have tended to favour the large farmers. Except for rice in Malaysia, which became heavily protected during 1975-83, negative values for the total nominal protection rates combined with overvaluation in real exchange rates have on several occasions exerted a negative effect on agricultural production incentives in Thailand and the Philippines. As Bautista notes, "such anti-agricultural price bias of government policies, perhaps unintended in many cases, is presumptive evidence that farm production and exports would have been larger under a less restrictive foreign trade regime. It reduces the effectiveness of public investment in agriculture, nullifying at least in part the benefits derived from it by agricultural producers."[22] The upshot is that the net effect of the anti-agricultural price bias of government policies might have contributed to an increase in poverty and this bias against agriculture and its negative output effect give rise to an effective resource transfer out of the agricultural sector.

The public distribution of(subsidized or free) foodstuffs is a close alternative to income transfers. But the implementation of these schemes may have increased the inequality of the distribution of consumption. The distributed supplies have been available mostly in urban centers in Thailand. Since urban incomes are usually higher than rural incomes, the urban bias of food distribution systems may have accentuated inequality.

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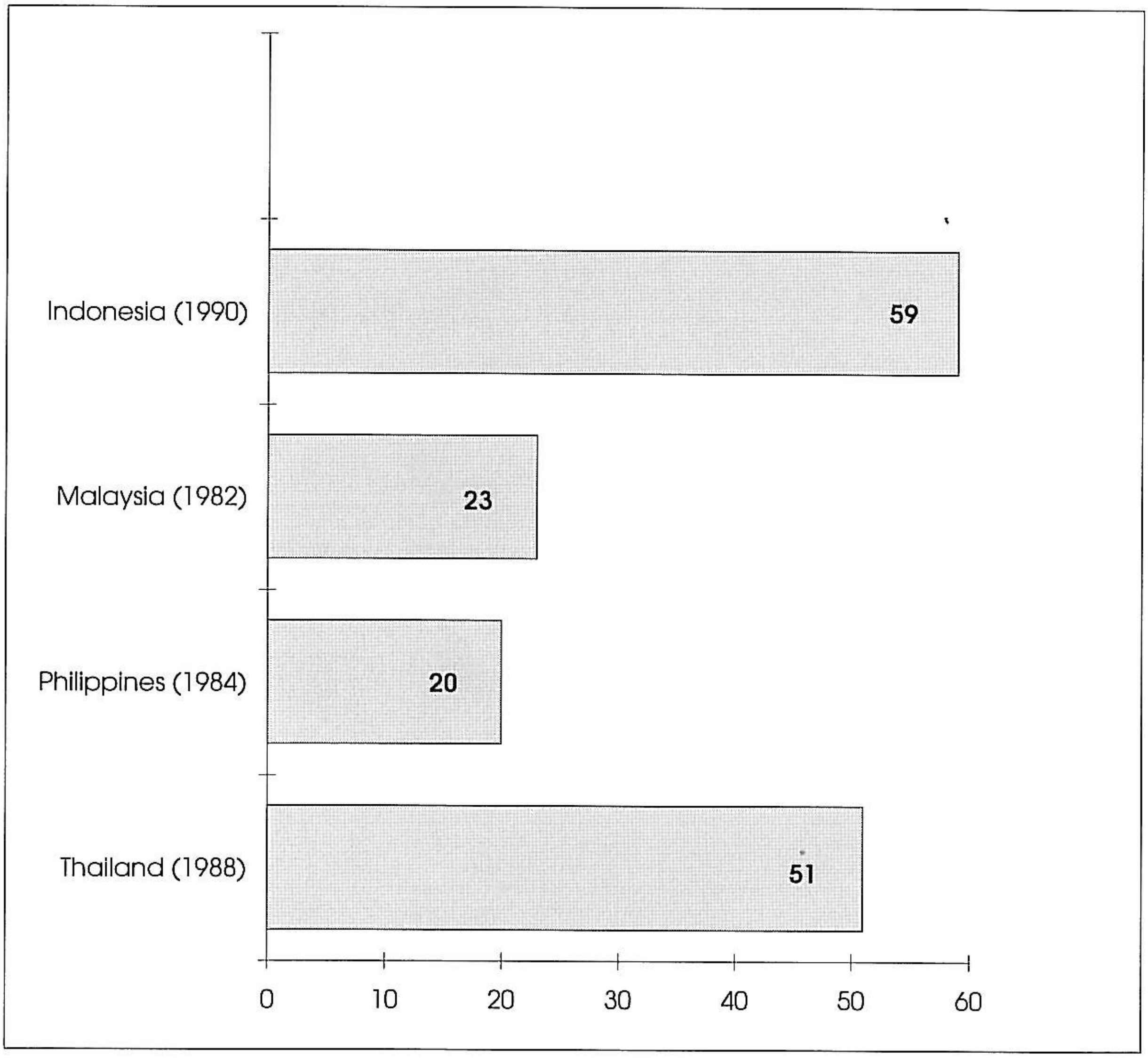
[21] The following draws heavily on Romeo M. Bautista, Development Policy in East Asia. Economic Growth and Poverty Alleviation, ISEAS, Singapore, 1992, pp.34-35.

[22] Ernesto M. Bautista, Development Policy, ibid. pp.36-37.

Table 2: Effective protection rates in manufacturing in the ASEAN-4



Effective protection rate

Source: World Bank

The Regulatory Framework and the Role of the State as Conflict Arbiter

Regarding foreign direct investment (FDI) from Transnational National Companies (TNCs) the voidance shows that they tend to be less sensitive to the social concerns and the political pressures of national and regional authorities. Thus, TNC workers in the ASEAN countries are much more exploited and they tend to inhibit labour union activities, effectively preventing autonomous workers' organizations from defending their standards of living through collective action. TNC workers are almost wholly dependent upon the goodwill of management. Recent data show that all the states in the ASEAN-4 intervened directly in slightly over one-half(51.9 percent) of labour actions calculated between 1968 and 1983. Workers experienced firings in 49.0 percent of the events; detentions in 12.2 percent; injuries in 8.2 percent; and coerced terminations in 32.7 percent. At least one form of repression occurred in two-thirds(67.3 percent) of the cases.[23]

The suppression of ASEAN trade unions for the purpose of export-oriented industrialization policies has caused the erosion of real wages. The industrial working class has been small and with a restrained political potential and mobilization. It has been easy for the state and policy elites to establish domination over labour movements. During colonialism in Malaya, the British fostered the formation of the Malayan Trade Union Congress (MTUC) as an alternative to the communist unions, and the MTUC today continues to be a moderate organization, hemmed in by many restrictive laws. In Indonesia a government-sponsored labour federation replaced independent unionism, which collapsed with the crushing of the Communist party in 1965. Unions in Thailand have traditionally been small and fragmented, and occasionally under the influence of factions in the military and the government. Only in the Philippines does the leftist labour movement represent some sort of challenge to the government, but still it is not a potent force.[24]

The working class' lack in bargaining power is also caused by widespread, unemployment and underemployment. The proportion of the work force employed in manufacturing and construction being only 13 percent in Indonesia and the Philippines, 15 percent in Thailand and 14.5 percent in Malaysia.

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[23] Note that 12 countries are included in the sample. David Kowalewski, *Asian State* , op cit. pp.73.

[24] Harold Crouch and James W. Morley, *The Dynamics of Political Change*, in James W. Morley(Ed.), Driven by Growth. Political Change in the Asia-Pacific Region, M.E. Sharpe, New York, 1993, p. 285.

In the last decade the ASEAN governments have utilized policies toward union and wages more for stabilization than for redistribution aims. However, the question remains if the strategy of the NICs which the ASEAN-4 with more or less success are trying to emulate(not duplicate), is possible in an increasingly hostile and managed world market. Although there are room for four NICs, there is no room for 25. To quote Rodan's conclusion with regard to Singapore's export-led strategy, it was feasible because of opportune historical conditions, not because this strategy made universal sense.[25]

Political Will and Implementation. Creating Growth without Welfare

The problems of economic policy are difficult to analyze in depth without taking into consideration the political and institutional environment and the constraints on policy-making. As Gourevitch's points out, "the autonomy of the state has a social base: for state autonomy to exist for specific purposes, the state must be able to obtain support, of differing kinds, from societal actors. The strong state is one with the political support to be strong, a state with the compliance or enthusiasm of at least some societal actors that support the actions of strength."[26]

But lack of experience and expertise is one single big problem that plagues policy-makers in Southeast Asia. Even with the best intentions, the lack of certain skills can be a formidable obstacle to policy-making. The instruments at disposal of a modern state are numerous; and there are trade-offs and ramifications that can confound any carelessly designed policy. These limitations of managerial capabilities of the state is frequently used by the World and IMF as an argument against interventionist policies. There is no doubt that these limitations must be taken into consideration in the design of policies (the selection of instruments, determination of monitoring methods, etc.). But these limitations need not determine the aims and priorities of the state. Even the efficient supervision of a *régime* of laissez-faire requires managerial skills and heavy regulation.

Nevertheless, I will argue that it is necessary to focus on the political regime and the choice of development strategy. Crone distinguish between 'political capacity' and 'political will' as

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25 Garry Rodan, The Political Economy of Singapore's Industrialization. National State and International Capital, Forum, Kuala Lumpur, 1989, p.214.

26 Peter A. Gourevitch, Politics in Hard Times: Comparative Responses to International Economic Crises, Cornell University Press, Ithaca, New York, 1986, p.238.

the two primary variables that affect the non-market distribution of social welfare. "It is apparent that both an ability to implement change(political capacity), and the willingness to do so(political will) are requisites of public-initiated welfare changes; neither alone is sufficient."[27] Crone's thesis is, that political variables like capacity and will, respectively, derives from the underlying structure of the political system and are rooted in an intra-elite struggle over social change. Together they constitute various responses in either a welfare-enhancing or welfare-inhibiting manner.

To reiterate, the critical elements in state capacity is a broader pattern of socioeconomic elite support, not democracy. Further, political structures facilitate, or hinder, redistributive reform by providing more or less capacity to act independently. Crisis situations stimulates and calls for change.[28]

The situation in Malaysia confirms this thesis. By an evaluation of the NEP program, which grew out as a critique of the crisis in the 1969, when Singapore was created as an independent state the Prime Minister stated: Overall the evaluation of the program to emphasize basic services and redistributive control of economic resources is that it has eradicated acute poverty and raised the general welfare, and achieved growth with equity.

In Thailand the so-called Accelerated Rural Development Program (ARDP) was essentially established as a response to the brief period with democracy between 1973-76.[29] The importance of the ARDP has been stressed by the King reflecting his concern that "our own survival depends on the stability and security of the rural people."

The rhetoric of crisis and reform are a constant in Philippine politics. As a consequence of Marcos' ineffective martial law and crony capitalism it became clear that the incapacities of the Filipino state to restore legitimacy was impossible. The new Aquino regime came to power with a promise to implement a comprehensive programme of agrarian reform. However, as in

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27 Donald K. Crone, *States, Elites and Social Welfare in Southeast Asia*, World Development, Vol. 21, No. 1, 1993, p.56.

28 The following builds on Donald K. Crone, States, Elites, Ibid. pp.61-64.

29 For a good evaluation of this reform see Chairat Charoensin-olarn, Understanding Postwar Reformism in Thailand, Duang Kramol, Bangkok, 1988.

the case of Thailand, vested interests in the military and big business blocked implementation.[30]

In Indonesia, it was the change, after a brief but extremely bloody period, from the Old Order to the New Order which marked the establishing of a comprehensive reform program. One of the outcomes was major contradictions in the political structure of the New Order between the Bappenas technocrats and the major, military-dominated, politico-bureaucratic factions over the control of economic policy, itself and, more specifically control over the resources of the state.[31]

Crisis did shift leaderships towards reformist programs in the ASEAN-4, except in the Philippines where vested interest located outside the state apparatus were to strong. The higher state capacity of Malaysia provided it with the means, crisis with the motivation, and intra-elite struggles with the mode for reformist change. While the Philippine state has experiences crisis, it has had neither the capacity nor the strategic leadership to implement reform. In Thailand evidence shows that the autonomy of the technocrats to implement macro-economic reform is evident while sectoral reforms intended to be carried out by line-ministries depends on which interests should be taken care of.[32] The situation in Indonesia is similar to the Thai example with an upgrading of the rural sector, but still the main purpose is to channel resources from agriculture to industry production.

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30 Sisira Jayasuriya, *Structural Adjustment and Economic Performance in the Philippines*, and Charles Lindsey, *The Political Economy of International Economic Policy Reform in the Philippines: Continuity and Restoration*, in Andrew MacIntyre and Kanishka Jayasuriya (eds.), The Dynamics of Economic Policy Reform in South-East Asia and the South-West Pacific, Oxford University Press, 1992. pp.62 and pp.84.

31 Richard Robison, Indonesia. The Rise of Capital, Allen & Unwin, Sydney, 1986, p. 140.

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Table 3: Central Government Expenditure in the ASEAN-4

	Percentage of total expenditure									
	Defense		Education		Health		Housing, amenities; social security and welfare		Economic services	
	1972	1990	1972	1990	1972	1990	1972	1990	1972	1990
Malaysia	18.5	8.6	23.4	16.1*	6.8	2.6*	4.4	5.5	14.2	20.6
Thailand	20.2	17.3	19.9	20.1	3.7	6.8	7.0	5.8	25.6	22.1
Indonesia	18.6	8.0	7.4	8.4	1.4	2.0	0.9	1.5	30.5	27.6
Philippines	10.9	11.0	16.3	16.9	3.2	4.1	4.3	2.3	17.6	23.6

Source: World Bank and Sixth Malaysia Plan 1991 - 1995 (*)

The outcome of the case studies are compared in table 3 with central government expenditure on social programs and defence. While there is traditionally one social welfare department in the ASEAN countries or at least an agency, it typically has a modest budget, and does not have a basic-needs mandate. Unsurprisingly, during the last 18 years, the share in central government expenditure of 'housing, amenities, social security and welfare' among the ASEAN-4 ranged from a 0.9 percent increase in Malaysia, to a decrease of 1.2 percent in Thailand, 0.6 percent increase in Indonesia, and a 2 percent drop in the Philippines - This is markedly lower than the 16.2 percent average for middle-income LDCs in 1985 and also much lower than the average in most of the Latin American and South Asian countries. Together with the decrease in defence expenditures, except in the Philippines, this explains partly one 'obvious comparative advantage' vis-a-vis other middle-income LDCs. (However, lately a new arms race is taking place partly because of the withdrawal of the United States from the region and partly because of fear of a strong self-confident China).
Improvement in the opportunities for the poor to accumulate additional assets is another way to redistribute growth. However, as table 3 shows, public investment in education and health actually dropped significantly in Malaysia, while there was a slight increase in Thailand, Indonesia, and the Philippines.

The major problem in Southeast Asia, today, is labour displacement, not absorption. Even within the region's established and highly protected manufacturing base the future leads towards redundancy, towards continuing foreign control and towards a growing number of unemployed, volatile and educated youth flocking to cities. Indonesia's labour force grows by 1.6 million annually. The Philippines and Thailand must find 800.000 new jobs each year, at a time when investors want higher value-added from each worker, an effect belying the usefulness of foreign investment to mop up unemployment.

Let me end up with a sociological explanation on the seemingly relative peaceful social change taking place in Southeast Asia.[33] Given the huge socioeconomic divide between many in the working class and the very few in the elite class, it might be anticipated that a class-based (urban worker) revolution or reformist organization will occur in one or more of the countries. But at least in the foreseeable future, this is unlikely to happen for three reasons. First, the fact that there is some upward social mobility lends hope to poor families that one or more of their children somehow will be able to rise on the socioeconomic ladder to middle-class status. Second, an expanded middle class provides a buffer of sorts between the two classes at extreme ends of the social spectrum. Third, a successful revolution normally requires

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[33] Thanks partly to M. Ladd Thomas, Social Changes, op cit. pp.7.

support by the majority of the population and, in all of these countries the vast majority consists of rural-based families engaged in agriculture or fishing. These rural folk generally have yet to identify their interests with those of urban workers.

Also there has been neither state capacity or will to implement a land reform. On the contrary, crisis situations have been marked by demands from the rural areas for land reform, in Indonesia (1965), in Malaysia (1965-68), Thailand 1973-76), and the Philippines on several occasions. Thailand, Malaysia and Indonesia have had regime structures that allowed in varying degrees some redistributive changes. This has been especially so as deliberate attempts to combat crises situations. Reforms aimed at increasing social welfare in the Philippines have been resisted by a feudal land-lord class and big business while Malaysia has delivered significant reforms to their population.

What is apparent in the contemporary paternalistic Mandarin state model is that, wild capitalism requires a social contract to function in the short-run and to become sustainable in the long-term. Legitimacy in the Southeast Asian growth strategy derives from one factor only: economic growth. But without welfare or some institutionalized binding contract which benefit the growing expectations of middle classes and working classes Clondyke capitalism will deteriorate into social chaos or revolution. Furthermore it is questionable if the 'historical specificity' of the NICs can be replicated by improving state and policy coherence and by building up a hybrid social contract.

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